

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
DECEMBER 31, 2011 AND 2010

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NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2011 and 2010

Our discussion and analysis of the financial performance of Newman Regional Health provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2011 and 2010. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net assets decreased by \$285,220 or .8 percent in 2011 as compared to a decrease of \$911,666 or 2.6 percent in 2010.

The Hospital reported an operating loss of \$152,829 in 2011. This compares to an operating loss of \$673,123 and \$779,179 in 2010 and 2009, respectively.

Using these financial statements

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenue, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific operating purposes by contributors, grantors and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources including all restricted and unrestricted assets and all liabilities using the accrual basis of accounting in a way that helps answer this question. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets - the difference between assets and liabilities may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

Assets, liabilities, and net assets

The Hospital's balance sheets as of the end of each of the last three years are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current assets	\$ 18,266,446	\$ 17,475,951	\$ 16,137,930
Assets limited as to use	7,036,421	6,970,674	7,602,155
Capital assets, net	24,437,878	26,101,406	29,128,070
Other assets	<u>382,520</u>	<u>460,719</u>	<u>267,301</u>
Total assets	<u>50,123,265</u>	<u>51,008,750</u>	<u>53,135,456</u>
Liabilities			
Current liabilities	5,335,880	4,732,501	4,384,232
Long-term debt obligations	<u>11,286,047</u>	<u>12,489,691</u>	<u>14,053,000</u>
Total liabilities	<u>16,621,927</u>	<u>17,222,192</u>	<u>18,437,232</u>
Net assets	<u>\$ 33,501,338</u>	<u>\$ 33,786,558</u>	<u>\$ 34,698,224</u>

We operate in a challenging healthcare environment on both a local and national level. Despite the challenges, we have maintained a strong and liquid balance sheet. Our liquidity position when measured by the ratio of current assets to current liabilities was 3.4 in 2011, 3.7 in 2010, and 3.7 in 2009. Current assets increased by \$790,495 in 2011 and increased by \$1,338,021 in 2010, both as compared with the prior year. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents has increased each of the past two years and has ranged from \$8.28 million in 2009 to \$10.74 million in 2011. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue invested in net accounts receivable was 45 days in 2011, 48 days in 2010, and 47 days in 2009. The other notable change in our balance sheet for the periods presented above is the decline in capital assets, net. This decline is a result of our annual depreciation provision exceeding expenditures for replacement of capital assets and equipment. This trend is expected to moderate as we anticipate higher capital spending in the future to replace aging equipment. We will also continue to make technology enhancements required to become a meaningful user of electronic health record technology. The investments in electronic health record technology will be partially reimbursed to the Hospital under the Federal Government's incentive payment system.

Total liabilities declined in each of the years presented as compared with the previous year. The decline is due primarily to the change in long-term debt obligations which have declined as scheduled debt retirements have exceeded new debt obligations entered into by the Hospital. In March 2010, the Hospital advanced refunded its previously outstanding bonds through the issuance of additional debt by the Lyon County Public Building Commission. We entered into this transaction for the purpose of lowering our overall borrowing costs.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

Operating results and changes in net assets

In 2011, the Hospital's net assets decreased by \$285,220, or .8 percent as shown in the following table. This decrease is made up of very different components. The Hospital's operating results and changes in net assets for each of the last three years are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues			
Net patient service revenue	\$ 47,972,476	\$ 45,077,862	\$ 44,208,327
Other operating revenue	<u>1,498,113</u>	<u>2,310,575</u>	<u>2,496,656</u>
Total operating revenue	49,470,589	47,388,437	46,704,983
Operating expenses			
Salaries and wages	22,330,788	21,842,854	20,979,759
Employee benefits	6,477,057	6,059,408	5,516,056
Supplies and other expenses	17,651,125	16,405,566	16,836,075
Depreciation and amortization	<u>3,164,448</u>	<u>3,753,732</u>	<u>4,152,272</u>
Total operating expenses	49,623,418	48,061,560	47,484,162
Operating loss	(152,829)	(673,123)	(779,179)
Interest expense	(459,911)	(591,902)	(872,412)
Other nonoperating revenues			
(expenses)	288,329	303,366	312,318
Capital grants and contributions	<u>39,191</u>	<u>49,993</u>	<u>2,237</u>
Decrease in net assets	<u>\$ (285,220)</u>	<u>\$ (911,666)</u>	<u>\$ (1,337,036)</u>

The first component of the overall change in the Hospital's net assets is the operating loss - generally, the difference between operating revenues and the expenses incurred to perform those services. The Hospital reported a decline in our operating loss of \$520,294 in 2011 as compared with 2010. This follows a decline in the loss reported of \$106,056 in 2010 as compared with 2009. The operating performance of our Hospital is influenced by utilization of services that we provide, which is affected by the health of our local economy, availability of physician services in our community, and patient access to health insurance coverage. We are also affected by payment adjustments that are implemented by Medicare and other significant third-party payers as well as the increased scrutiny that has been placed upon the coding and billing of claims. Total operating revenues increased by 4.4 percent in 2011, after increasing by 1.5 percent in 2010 and decreasing by 3.8 percent in 2009. 2011 net revenues were positively impacted by the transfer of the Hospice operations from a separate entity to a department of the Hospital beginning in November 2010. We are focused on issues affecting utilization and our strategic plan has been to maintain the highest level of advanced medical technology, enhancing relations with existing physicians, and assisting with the recruitment of new physicians to our community. We have also made decisions to stop providing some service lines. Most notable was our decision in 2009 to close our home health agency and other lesser utilized noncore services. The biggest challenge we face is with the

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

changing utilization of Hospital services. The following table displays the number of inpatient days of service provided by the Hospital during the past four years and shows the continual decline in inpatient services:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Acute care days	8,382	9,497	10,371	11,612
ICU days	514	634	587	678
Skilled days	1,443	1,566	1,651	2,009
Rehab days	1,226	951	1,045	1,271
Nursery days	<u>953</u>	<u>979</u>	<u>1,054</u>	<u>1,248</u>
Total inpatient days	<u>12,518</u>	<u>13,627</u>	<u>14,708</u>	<u>16,818</u>

As you can see by the table, inpatient days have declined by 26 percent from 2008 to 2011. This trend has been seen nationally as there is more emphasis on treating patients in an outpatient setting and there is greater regulatory focus on one day stays and readmissions.

We have been active in recruiting physicians to our community and have devoted resources to medical staff relations in an attempt to reverse the decline in inpatient volumes. Over the past several years, we have employed select physician practice groups that we feel are necessary to ensure that a full complement of services are available in our community.

The change in operating revenues from year to year has also been impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2011, 2010, and 2009, the Hospital qualified for Medicaid DSH payments in the amounts of \$1,938,418, \$1,142,871, and \$1,049,645. Eligibility for these payments is determined annually and is based upon numerous factors including the level of services provided to uninsured and Medicaid beneficiaries as compared with other Hospital providers in the State. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients. It is uncertain as to whether we will continue to receive this allocation in future years after the Federal Governments Health Care Reform mandate is implemented in 2014.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital implemented a policy that automatically provides a 20 percent discount to all uninsured patients. The percentage of gross charges that are written off annually due to uninsured discounts, charity care discounts, and bad debts equaled 6.3 percent in 2011. This compares to 7.6 percent in 2010 and 7.1 percent in 2009. Total discounts granted to uninsured or charity care patients equaled \$3,679,062 in 2011 as compared to \$4,471,905 in 2010 and \$3,891,361 in 2009.

Salaries and benefits are significant components of operations. Total salaries and wages increased by 2.2 percent in 2011, increased 4.1 percent in 2010, and decreased by 4.6 percent in 2009. The increase in salaries in 2010 relates directly to the employment of physicians and the associated practices as well as the employment of emergency room physicians for a full year in 2010 as compared to a partial year in 2009. In late 2009, the Hospital's emergency room physician

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

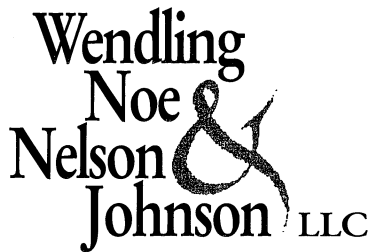
provider terminated its contract with the Hospital which resulted in the employment of physicians in order to maintain coverage in our emergency room. These decreases were somewhat offset due to physician employment within hospital-owned clinics. Employee benefits expense increased by 6.9 percent in 2011, increased by 9.9 percent in 2010, and decreased by .1 percent in 2009. When measured as a percent of total salaries, these costs represent 29.0, 27.7, and 26.3 percent of total salaries in 2011, 2010, and 2009. The largest increase in benefit costs in 2011 as compared to 2010 was related to our pension contribution to KPERS. Total expense increased by approximately \$160,000, or 13 percent from 2010. This expense is expected to remain elevated as the State deals with funding issues related to KPERS.

Supplies and other expenses increased by \$1,245,559 or 7.6 percent in 2011, decreased by \$430,509 or 2.6 percent in 2010, and decreased by \$1,146,914 or 6.4 percent in 2009. While we have experienced normal inflationary increases in the cost of goods and services each year, we have been very focused on making operational changes to reduce our costs and to become more flexible with changing volumes. In 2011, we experienced a \$370,000 increase in physician contract labor related to a new family practice clinic, an increase in emergency room physician contract labor of \$300,000, this cost was offset somewhat by lower emergency room physician salaries, a \$140,000 increase in information technology contract labor and a \$130,000 increase in Hospice contract services.

Depreciation and amortization expenses decreased \$589,284, \$398,540, and \$244,299 in 2011, 2010, and 2009. This expense is expected to moderate or increase some in 2012 due to a larger capital acquisition budget in 2012 as compared to 2011 and 2010. We will fund some of these future acquisitions out of proceeds received through a county-wide mill levy. We expect to receive approximately \$450,050 in 2012.

Interest expense decreased \$131,991 in 2011, \$280,510 in 2010, and slightly in 2009. The annual decline is due to having lower outstanding principal amounts and to lower interest rates due to the bond refinancing.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Newman Regional Health.



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
Derek H. Hart, CPA
John R. Helms, CPA
Darrell D. Loyd, CPA
Eric L. Otting, CPA

Jere Noe, CPA
John E. Wendling, CPA
Gary D. Knoll, CPA
Adam C. Crouch, CPA
Heather R. Eichem, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Newman Memorial County Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), a component unit of Lyon County, Kansas, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Newman Memorial County Hospital d/b/a Newman Regional Health as of December 31, 2011 and 2010, and their respective results of operations, changes in its net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is required supplementary information by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wendling Noe Nelson & Johnson 22C

Topeka, Kansas
April 10, 2012

FINANCIAL STATEMENTS

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
BALANCE SHEETS
December 31,

	ASSETS			
	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash and cash equivalents	\$10,737,266	\$ 294,745	\$10,135,312	\$ 2,093,778
Short-term investments		3,561,069		1,644,333
Assets limited as to use	122,977		141,745	
Patient accounts receivable, net of estimated uncollectibles of \$1,697,000 in 2011 and \$1,920,353 in 2010	5,944,349		5,882,446	2,419
Other receivables	14,080	355,913	27,378	7,472
Inventories	970,636		916,295	
Prepaid expenses	477,138		372,775	
Total current assets	<u>18,266,446</u>	<u>4,211,727</u>	<u>17,475,951</u>	<u>3,748,002</u>
ASSETS LIMITED AS TO USE				
Internally designated for capital acquisitions	5,463,685		5,458,353	
Under bond indenture agreements - held by trustee	1,554,263		1,588,955	
By contributors				
For capital acquisition	80,000			
For scholarships	61,450		65,111	
	<u>7,159,398</u>		<u>7,112,419</u>	
Less amounts required to meet current obligations	<u>122,977</u>		<u>141,745</u>	
	<u>7,036,421</u>	-	<u>6,970,674</u>	-
CAPITAL ASSETS, net	<u>24,437,878</u>	-	<u>26,101,406</u>	-
OTHER ASSETS				
Deferred financing costs	198,245		240,333	
Other receivables	184,275		220,386	
	<u>382,520</u>	-	<u>460,719</u>	-
	<u>\$50,123,265</u>	<u>\$ 4,211,727</u>	<u>\$51,008,750</u>	<u>\$ 3,748,002</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 940,034	\$ 7,606	\$ 955,797	\$ 7,120
Accrued salaries and payroll taxes	975,604		811,030	
Interest payable	30,892		32,700	
Current maturities of long-term debt and capital leases	1,377,597		1,239,424	
Accrued vacation and other employee benefits	1,536,531		1,465,902	
Estimated liability for receivables sold with recourse	91,000		98,000	
Estimated third-party payor settlements	384,222		129,648	
Total current liabilities	<u>5,335,880</u>	<u>7,606</u>	<u>4,732,501</u>	<u>7,120</u>
LONG-TERM DEBT, net of current maturities	<u>11,286,047</u>	<u>-</u>	<u>12,489,691</u>	<u>-</u>
Total liabilities	<u>16,621,927</u>	<u>7,606</u>	<u>17,222,192</u>	<u>7,120</u>
NET ASSETS				
Invested in capital assets - net of related debt	11,774,234		12,372,291	
Restricted				
For debt service	1,554,263		1,588,955	
For capital acquisition	80,000			
For specific operating activities	75,628	3,469,741	84,688	3,340,963
Nonexpendable permanent endowments		375,056		
Unrestricted	<u>20,017,213</u>	<u>359,324</u>	<u>19,740,624</u>	<u>399,919</u>
	<u>33,501,338</u>	<u>4,204,121</u>	<u>33,786,558</u>	<u>3,740,882</u>
	<u>\$50,123,265</u>	<u>\$ 4,211,727</u>	<u>\$51,008,750</u>	<u>\$ 3,748,002</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
Year ended December 31,

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$47,972,476	\$ -	\$45,077,862	\$ 1,383,017
Other	<u>1,498,113</u>		<u>2,310,575</u>	
Total operating revenues	<u>49,470,589</u>	<u>-</u>	<u>47,388,437</u>	<u>1,383,017</u>
Operating expenses				
Salaries and wages	22,330,788		21,842,854	
Employee benefits	6,477,057		6,059,408	
Supplies and other expenses	17,651,125		16,405,566	1,283,103
Depreciation and amortization	<u>3,164,448</u>		<u>3,753,732</u>	<u>5,862</u>
Total operating expenses	<u>49,623,418</u>	<u>-</u>	<u>48,061,560</u>	<u>1,288,965</u>
Operating income (loss)	<u>(152,829)</u>	<u>-</u>	<u>(673,123)</u>	<u>94,052</u>
Nonoperating revenues (expenses)				
Investment income	155,556	(14,149)	268,636	206,714
Interest expense	(459,911)		(591,902)	
Noncapital grants and contributions	149,456	682,414	57,417	148,946
Other	<u>(16,683)</u>	<u>(205,026)</u>	<u>(22,687)</u>	<u>(111,777)</u>
Total nonoperating (expenses) revenues	<u>(171,582)</u>	<u>463,239</u>	<u>(288,536)</u>	<u>243,883</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	(324,411)	463,239	(961,659)	337,935
Capital grants and contributions	<u>39,191</u>		<u>49,993</u>	
Increase (decrease) in net assets	(285,220)	463,239	(911,666)	337,935
Net assets, beginning of year	<u>33,786,558</u>	<u>3,740,882</u>	<u>34,698,224</u>	<u>3,402,947</u>
Net assets, end of year	<u>\$33,501,338</u>	<u>\$ 4,204,121</u>	<u>\$33,786,558</u>	<u>\$ 3,740,882</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL

D/B/A NEWMAN REGIONAL HEALTH

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$48,158,147	\$ 2,419	\$45,191,056	\$ 1,618,217
Payments to or on behalf of employees	(28,572,642)		(27,858,078)	
Payments to suppliers	(17,825,592)		(16,078,989)	(1,361,429)
Other receipts and payments	<u>1,547,522</u>		<u>2,335,601</u>	
Net cash provided by operating activities	<u>3,307,435</u>	<u>2,419</u>	<u>3,589,590</u>	<u>256,788</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	69,456	333,348	57,417	142,696
Other	<u>(5,732)</u>	<u>(204,540)</u>	<u>(30,109)</u>	<u>(111,777)</u>
Net cash provided by noncapital financing activities	<u>63,724</u>	<u>128,808</u>	<u>27,308</u>	<u>30,919</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(1,530,951)		(738,853)	
Grants and contributions for capital	39,191		49,993	
Proceeds from sale of equipment	22,741		1,227	2,753
Issuance of long-term debt	542,500		14,618,648	
Payments of deferred financing costs			(274,671)	
Interest paid on capital related debt	(407,615)		(570,289)	
Principal payments on long-term debt	<u>(1,619,987)</u>		<u>(15,758,483)</u>	
Net cash provided (used) by capital and related financing activities	<u>(2,954,121)</u>	<u>-</u>	<u>(2,672,428)</u>	<u>2,753</u>
Cash flows from investing activities				
Change in assets limited as to use	18,007		604,119	
Change in short-term investments		(1,983,759)		307,049
Interest received	<u>166,909</u>	<u>53,499</u>	<u>310,122</u>	<u>64,472</u>
Net cash provided (used) by investing activities	<u>184,916</u>	<u>(1,930,260)</u>	<u>914,241</u>	<u>371,521</u>
Increase (decrease) in cash and cash equivalents	601,954	(1,799,033)	1,858,711	661,981
Cash and cash equivalents at beginning of year	<u>10,135,312</u>	<u>2,093,778</u>	<u>8,276,601</u>	<u>1,431,797</u>
Cash and cash equivalents at end of year	<u>\$10,737,266</u>	<u>\$ 294,745</u>	<u>\$10,135,312</u>	<u>\$ 2,093,778</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (152,829)	\$ -	\$ (673,123)	\$ 94,052
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	3,164,448		3,753,732	5,862
Provision for bad debts	2,870,774		3,059,080	
Changes in				
Patient accounts receivable	(2,932,677)	2,419	(3,262,155)	235,200
Inventories	(54,341)		37,638	
Prepaid expenses	(104,363)		410,570	55,961
Accounts payable and accrued expenses	219,440		(77,447)	(134,287)
Estimated third-party payor settlements	254,574		311,269	
Estimated liability for receivables sold	(7,000)		5,000	
Other receivables	49,409		25,026	
Net cash provided by operating activities	<u>\$ 3,307,435</u>	<u>\$ 2,419</u>	<u>\$ 3,589,590</u>	<u>\$ 256,788</u>
Supplemental schedule of noncash investing and financing activities				
Net change in unrealized gains and (losses) on investments	\$ (18,979)	\$ (73,391)	\$ (39,822)	\$ 271,143

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) is owned by Lyon County (the County), Kansas, and operated by the Board of Trustees of Newman Memorial County Hospital, a nine-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1922, is a not-for-profit general hospital located in Emporia, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of Lyon County. The component unit discussed in Note A2 is included in the Hospital's reporting entity because of the significance of its operational relationship with the Hospital.

The Hospital has entered into a management agreement with Quorum Health Resources (QHR) for the operation of the Hospital. Under the agreement, QHR agrees to manage the daily operations of the Hospital and to provide the Hospital with the services of a chief executive officer employed by QHR. The Hospital Board of Trustees retains all authority and control over the business, policies, operations, and assets of the Hospital.

2. Component unit

The financial statements include a discrete presentation of financial data of the Hospital's component unit which is reported in a separate column to emphasize that it is legally separate from the Hospital. The governing body of this component unit is appointed by the Hospital and can be removed by the Hospital's board at will.

Newman Hospital Regional Health Foundation (the Foundation) is a not-for-profit corporation. The Foundation's purpose is to conduct its operations for the benefit and to carry out the purposes of the Hospital in the betterment and enhancement of the health care services for the citizens of the community. The Hospital is the sole voting member of the Foundation.

The Foundation is the sole voting member of Hand In Hand Homecare and Hospice, Inc., (the Hospice) a not-for-profit member corporation which provides hospice services. The financial data of the Hospice is included as a component unit in the financial statements. On November 1, 2010, the Hospice operations were transferred to a department of the Hospital. The assets held by the Hospice on that date, with the exception of a nominal amount, were transferred to the Foundation and are held for the benefit of Hospice patients.

The component unit's financial statements have been reconfigured to allow for side-by-side columnar presentation with the Hospital's financial statements.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," the Hospital has implemented all GASB pronouncements, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued before November 30, 1989, except those that conflict with GASB pronouncements and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly liquid debt instruments with maturities of three months or less excluding any such amounts included in short-term investments or assets limited as to use.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience by type of payor.

7. Property taxes

The County approved a property tax levy for the Hospital to be used for capital acquisitions. The taxes were levied in November 2011 with the Hospital receiving funds beginning in January 2012. The property tax revenue will be recognized in 2012 which is the year the funds use is first permitted.

8. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

9. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

10. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; and assets restricted by donors for capital acquisitions and scholarships.

11. Capital assets

Capital assets, including assets recorded as capital leases and intangible assets, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

12. Cost of borrowing

Interest costs including amortization of deferred financing costs and bond discounts, incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are amortized over the term of the related debt using the interest method.

13. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

14. Net assets

Net assets of the Hospital are classified in three components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the current balances of any

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net assets" are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note C. "Unrestricted net assets" are remaining net assets that do not meet the definition of "invested in capital assets net of related debt" or "restricted."

15. Operating revenues and expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

16. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

17. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges written off and the estimated cost of providing by the Hospital is disclosed in Note B.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute, rehabilitation, and swing-bed care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or per day. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Most services rendered on an outpatient basis are paid at prospectively determined rates based on the patient's ambulatory payment classification. The Hospital receives pass-through cost reimbursement for

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE B - NET PATIENT SERVICE REVENUE - Continued

its school of nursing program. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through December 31, 2006.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment. In addition to these payments, the Hospital qualified for Medicaid access payments, as well as Medicaid disproportionate share hospital payments, in both years presented.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 104,206,510	\$ 98,605,272
Deductions from patient service revenue		
Third-party contractual adjustments	(51,746,077)	(47,314,054)
Medicaid DSH and access payments	2,200,504	1,404,957
Provision for bad debts	(2,870,774)	(3,059,080)
Charity care	(2,256,232)	(2,971,570)
Uninsured discounts	(1,422,831)	(1,500,335)
Other discounts and allowances	(138,624)	(87,328)
Net patient service revenue	<u>\$ 47,972,476</u>	<u>\$ 45,077,862</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 40 percent and 10 percent of the Hospital's net patient revenue during 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in future years.

The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from its Medicare cost reports, was \$987,226 and \$1,306,460 for 2011 and 2010, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE C - ASSETS LIMITED AS TO USE

Under bond indenture agreements - held by trustee

Assets limited as to use by bond indenture agreements are held by a trustee and are stated at fair value. These assets are related to the revenue bond issue (Note E) and consist of the following:

	<u>2011</u>	<u>2010</u>
Principal and interest sinking fund	\$ 122,977	\$ 141,745
Bond reserve fund	<u>1,431,286</u>	<u>1,447,210</u>
	<u>\$ 1,554,263</u>	<u>\$ 1,588,955</u>

Assets are invested by the trustee as follows:

	<u>2011</u>	<u>2010</u>
Money Market Treasury Fund	\$ 159,228	\$ 145,062
U.S. Government and Agency obligations at fair value	1,388,145	1,423,548
Interest receivable	<u>6,890</u>	<u>20,345</u>
	<u>\$ 1,554,263</u>	<u>\$ 1,588,955</u>

Income earned on bond reserve funds may be transferred to the respective principal and interest sinking fund to pay a portion of the interest on the bonds. The bond reserve funds are available for bond principal and interest payments to prevent any default in the payment of principal or interest of the respective bonds or, if not so required, may be used to make the final payments of bond principal and interest.

Internally designated

The Hospital's Board of Trustees has designated certain investments to be used for future capital improvements. These assets, which consist of invested cash and accrued interest, may be used for other purposes by action of the Board of Trustees.

By contributors

These assets include funds received or receivable from contributors that have been specifically designated for use for capital improvements or nursing scholarships.

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE D - CAPITAL ASSETS - HOSPITAL

	Balance December 31, 2010	Transfers and additions	Retirements	Balance December 31, 2011
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	612,121	3,406	73,333	542,194
Buildings	34,282,108	9,661	56,608	34,235,161
Medical office building	11,443,849			11,443,849
Fixed equipment	10,194,391	2,025	727,478	9,468,938
Future expansion property	761,016	(3,406)		757,610
Leasehold improvements		225,930		225,930
Major movable equipment	21,253,069	1,150,401	1,662,464	20,741,006
Intangibles	25,000			25,000
Totals at historical cost	<u>79,215,067</u>	<u>1,388,017</u>	<u>2,519,883</u>	<u>78,083,201</u>
Less accumulated depreciation and amortization for				
Land improvements	399,047	27,045	73,333	352,759
Buildings	20,619,863	1,462,905	56,608	22,026,160
Medical office building	5,174,029	428,914		5,602,943
Fixed equipment	7,827,259	363,978	724,351	7,466,886
Future expansion property	3,406	(3,406)		
Leasehold improvements		12,867		12,867
Major movable equipment	19,128,434	863,812	1,635,560	18,356,686
Intangibles	5,555	8,333		13,888
Total accumulated depreciation and amortization	<u>53,157,593</u>	<u>3,164,448</u>	<u>2,489,852</u>	<u>53,832,189</u>
Projects in progress	26,057,474 <u>43,932</u>	(1,776,431) <u>142,934</u>	30,031	24,251,012 <u>186,866</u>
Capital assets, net	<u>\$ 26,101,406</u>	<u>\$ (1,633,497)</u>	<u>\$ 30,031</u>	<u>\$ 24,437,878</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE D - CAPITAL ASSETS - HOSPITAL - Continued

	Balance December 31, 2009	Transfers and additions	Retirements	Balance December 31, 2010
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	612,121			612,121
Buildings	34,288,478		6,370	34,282,108
Medical office building	11,447,225	(3,376)		11,443,849
Fixed equipment	10,159,573	34,818		10,194,391
Future expansion property	762,016	(1,000)		761,016
Major movable equipment	20,990,394	661,366	398,691	21,253,069
Intangibles	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
Totals at historical cost	<u>78,903,320</u>	<u>716,808</u>	<u>405,061</u>	<u>79,215,067</u>
Less accumulated depreciation and amortization for				
Land improvements	374,866	24,181		399,047
Buildings	19,036,780	1,589,453	6,370	20,619,863
Medical office building	4,743,525	430,504		5,174,029
Fixed equipment	7,438,844	388,415		7,827,259
Future expansion property	3,406			3,406
Major movable equipment	18,211,503	1,315,622	398,691	19,128,434
Intangibles	<u>5,555</u>	<u>5,555</u>	<u>5,555</u>	<u>5,555</u>
Total accumulated depreciation and amortization	<u>49,808,924</u>	<u>3,753,730</u>	<u>405,061</u>	<u>53,157,593</u>
Projects in progress	29,094,396	(3,036,922)		26,057,474
	<u>33,674</u>	<u>10,258</u>	<u>43,932</u>	<u>43,932</u>
Capital assets, net	<u>\$ 29,128,070</u>	<u>\$ (3,026,664)</u>	<u>\$ -</u>	<u>\$ 26,101,406</u>

The Hospital has outstanding commitments to purchase property and equipment of approximately \$2,275,000 at December 31, 2011.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE E - LONG-TERM DEBT

Long-term debt obligations consist of the following:

	<u>2011</u>	<u>2010</u>
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2010-A, issued March 1, 2010, in the original amount of \$14,120,000, 2.00% to 4.00% bonds due serially through December 1, 2021, net of unamortized premium of \$21,625	\$ 12,376,625	\$ 13,466,216
4.90% note payable to bank entered into March 26, 2010, in the original amount of \$468,688, paid off in April 2011		357,726
2.99% note payable to bank entered into April 29, 2011, in the original amount of \$542,500, payable in equal monthly installments of \$23,317, including interest, through April 29, 2013, collateralized by equipment with an amortized cost of \$444,922 at December 31, 2011	<u>365,239</u>	
Unamortized deferred refunding loss	<u>12,741,864</u> <u>(78,220)</u>	<u>13,823,942</u> <u>(94,827)</u>
Less current maturities of long-term debt	<u>12,663,644</u> <u>1,377,597</u>	<u>13,729,115</u> <u>1,239,424</u>
Long-term debt, net of current maturities	<u>\$ 11,286,047</u>	<u>\$ 12,489,691</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	<u>Beginning principal outstanding</u>	<u>Additions to principal</u>	<u>Reduction of principal</u>	<u>Ending principal outstanding</u>
Hospital revenue bonds	\$ 13,466,216	\$ -	\$ 1,089,591	\$ 12,376,625
Notes payable	<u>357,726</u>	<u>542,500</u>	<u>534,987</u>	<u>365,239</u>
	<u>\$ 13,823,942</u>	<u>\$ 542,500</u>	<u>\$ 1,624,578</u>	<u>\$ 12,741,864</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE E - LONG-TERM DEBT - Continued

Annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,377,596	\$ 377,908	\$ 1,755,504
2013	1,217,643	349,180	1,566,823
2014	1,150,000	326,103	1,476,103
2015	1,180,000	297,353	1,477,353
2016	1,210,000	264,902	1,474,902
2017 - 2021	<u>6,606,625</u>	<u>726,212</u>	<u>7,332,837</u>
	<u>\$ 12,741,864</u>	<u>\$ 2,341,658</u>	<u>\$ 15,083,522</u>

The Series 2010-A bonds are special obligations of Lyon County Public Building Commission and are payable from the net revenues of the Hospital. The net revenues of the Hospital are irrevocably pledged to the payment of the Series 2010-A bonds and interest thereon.

On March 1, 2010, the Lyon County Public Building Commission issued \$14,120,000 in Revenue Bonds, Series 2010-A, on behalf of the Hospital. The proceeds of the 2010 Bonds used together with other funds were used to refund the Series 2001-A, 2001-B, and 2002-A bonds and to pay costs related to the issuance of the 2010-A bonds.

The current refunding decreased total future debt service requirements of the Hospital by \$2,772,454. This resulted in an economic gain (difference between the present value of the future debt service payments on the old and new debt) of approximately \$2,200,000.

As a result of the prior year refunding, a deferred refunding loss of \$108,375 was recognized for the difference between book value of the refunded debt and the amount required to extinguish the debt. This loss is netted against long-term debt and is being amortized over the term of the related debt.

The indenture agreement for the bonds require the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreements also include certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness and level of fees and rates charged.

NOTE F - DEFINED BENEFIT PENSION PLAN

Plan description. The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE F - DEFINED BENEFIT PENSION PLAN - Continued

death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-800-275-5737.

Funding policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary for an employee first employed before July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6 percent of covered salary for an employee first employed on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rates established by statute at December 31, 2011 and 2010, are 7.49 percent and 6.89 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2011 and 2010, were \$1,549,901 and \$1,390,539, respectively, equal to the statutory required contributions for each year.

NOTE G - INTEREST EXPENSE

Total interest costs incurred are as follows:

	<u>2011</u>	<u>2010</u>
Total interest incurred	\$ 405,808	\$ 547,761
Amortization of deferred financing costs	42,088	34,338
Amortization of bond premium	(4,591)	(3,746)
Amortization of deferred refunding loss	<u>16,606</u>	<u>13,549</u>
Interest expense	<u>\$ 459,911</u>	<u>\$ 591,902</u>

NOTE H - RELATED ORGANIZATIONS

Prior to November 1, 2010, the Hospital had entered into contractual arrangements with Hand In Hand Homecare and Hospice, Inc., (a component unit) to provide the Hospice with management and nursing services as well as pharmaceutical supplies. Under the agreements, the Hospital was responsible for providing qualified employees to perform hospice services for the Hospice.

In 2010, the Hospital recorded approximately \$753,000, as other operating revenue for the sale of these services to the Hospice. This agreement was terminated on November 1, 2010, as these services are now provided as a department of the Hospital.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE H - RELATED ORGANIZATIONS - Continued

The Hospital contracts for management services, services of certain management personnel and other services with QHR. Under the agreement, QHR is responsible for daily management and administration of the Hospital, with ultimate control over the assets and operations of the Hospital retained by the Hospital's board. For the years ended December 31, 2011 and 2010, the Hospital expensed \$414,488 and \$400,086, respectively, for management services provided by QHR. The Hospital also reimburses QHR for salaries, benefits, and expenses of the chief executive officer (Note A1).

NOTE I - LEASE COMMITMENTS

Space is leased in the hospital and the medical office building to various physicians and other medical professionals. Lease income for the years ended December 31, 2011 and 2010, was \$587,256 and \$630,498, respectively. Future minimum lease payments receivable under these agreements as of December 31, 2011, are as follows:

Year ending December 31,	
2012	\$ 365,274
2013	324,498
2014	304,425
2015	304,425
2016	304,425
Thereafter	<u>42,736</u>
	<u>\$ 1,645,783</u>

The Hospital also leases property and equipment under various operating leases with related rentals charged to operations as incurred. Scheduled minimum rental payments for all noncancellable operating leases with remaining terms of one year or more are as follows:

Year ending December 31,	
2012	\$ 55,234
2013	55,234
2014	54,234
2015	<u>41,028</u>
	<u>\$ 205,730</u>

Rental expense for all operating leases consisted of the following:

	<u>2011</u>	<u>2010</u>
Minimum rentals due under leases expiring in more than one year	\$ 32,495	\$ -
Other rents	<u>243,152</u>	<u>237,482</u>
	<u>\$ 275,647</u>	<u>\$ 237,482</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE J - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Statutes also require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Hospital's deposits with financial institutions was \$16,244,769 and the bank balance was \$16,550,036 at December 31, 2011. The bank balance is categorized as follows:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	\$ 1,277,000
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>15,273,036</u>
	<u>\$ 16,550,036</u>

NOTE K - CONCENTRATION OF CREDIT RISK

The Hospital is located in Emporia, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2011</u>	<u>2010</u>
Medicare	34%	39%
Medicaid	13	10
Blue Cross	13	14
Commercial insurance	19	15
Workers' compensation	2	2
Self-pay	<u>19</u>	<u>20</u>
	<u>100%</u>	<u>100%</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE L - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$12,000,000 per occurrence with an aggregate amount in any policy year of \$12,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2012 for the policy period from January 1, 2012 to December 31, 2012.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE M - RECEIVABLES SOLD WITH RECOURSE

The Hospital has agreements with local financial institutions under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2011 and 2010 amounted to approximately \$406,000 and \$319,000, respectively. At December 31, 2011 and 2010, approximately \$540,000 and \$467,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2011 and 2010, of \$91,000 and \$98,000, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE N - SHORT-TERM INVESTMENTS

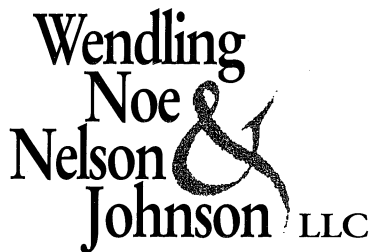
The component unit's investment securities are carried at fair market value and are held for an indefinite period and, thus, are classified as available for sale. The cost and unrealized gains (losses) of the component unit's short-term investments are summarized as follows:

	2011			2010		
	Cost	Gross unrealized gain (loss)	Estimated fair value	Cost	Gross unrealized gain (loss)	Estimated fair value
Common stock						
mutual funds	\$ 1,159,462	\$ (89,563)	\$ 1,069,899	\$ 320,985	\$ (51)	\$ 320,934
Common stock	968,647	38,666	1,007,313	546,899	(375)	546,524
Fixed income						
mutual funds	545,467	(1,157)	544,310	305,186	15,026	320,212
U.S. Government						
and Agency						
obligations	402,253	4,704	406,957	49,750	140	49,890
Corporate bonds	512,224	20,366	532,590	375,107	31,666	406,773
	<u>\$ 3,588,053</u>	<u>\$ (26,984)</u>	<u>\$ 3,561,069</u>	<u>\$ 1,597,927</u>	<u>\$ 46,406</u>	<u>\$ 1,644,333</u>

NOTE O - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through the date of the independent accountants' report, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
Derek H. Hart, CPA
John R. Helms, CPA
Darrell D. Loyd, CPA
Eric L. Otting, CPA

Jere Noe, CPA
John E. Wendling, CPA
Gary D. Knoll, CPA
Adam C. Crouch, CPA
Heather R. Eichem, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION

Board of Trustees
Newman Memorial County Hospital

We have audited the basic financial statements of Newman Memorial County Hospital d/b/a Newman Regional Health for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 10, 2012, which contained an unqualified opinion on those financial statements. Our audits were made for the purpose of forming an opinion on the basic combined financial statements as a whole of Newman Memorial County Hospital d/b/a Newman Regional Health as of and for the years ended December 31, 2011 and 2010, which are presented in the preceding section of this report. The supplemental information as of and for the years ended December 31, 2011 and 2010, presented hereinafter, is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Wendling Noe Nelson & Johnson 22c

Topeka, Kansas
April 10, 2012

NEWMAN MEMORIAL COUNTY HOSPITAL

D/B/A NEWMAN REGIONAL HEALTH

ACCOUNTS RECEIVABLE

December 31,

	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
0-60 days	\$ 10,842,442	\$ 10,235,381	85.1%	81.8%
61-90 days	808,161	895,735	6.3	7.1
91-120 days	357,845	634,435	2.8	5.1
121-150 days	311,940	356,889	2.5	2.9
Over 150 days	<u>415,961</u>	<u>385,359</u>	<u>3.3</u>	<u>3.1</u>
	12,736,349	12,507,799	<u>100.0%</u>	<u>100.0%</u>
Less allowance for contractual adjustments	5,095,000	4,705,000		
Less allowance for doubtful accounts	<u>1,697,000</u>	<u>1,920,353</u>		
	<u>\$ 5,944,349</u>	<u>\$ 5,882,446</u>		

Aging of accounts receivable is based on billed date.

The change in allowance for doubtful accounts is summarized as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 1,920,353	\$ 1,526,000
Provisions for bad debts	2,870,774	3,059,080
Collections on charged-off accounts	<u>1,495,718</u>	<u>1,580,712</u>
Accounts charged off	6,286,845	6,165,792
Change in liability for receivables sold	(4,596,845)	(4,240,439)
	<u>7,000</u>	<u>(5,000)</u>
Balance at end of year	<u>\$ 1,697,000</u>	<u>\$ 1,920,353</u>

NEWMAN MEMORIAL COUNTY HOSPITAL

D/B/A NEWMAN REGIONAL HEALTH

PATIENT SERVICE REVENUE

Year ended December 31,

	2011		2010	
	Patient service revenue	Percent of total patient service revenue	Patient service revenue	Percent of total patient service revenue
Inpatient service				
Daily patient care				
Acute care	\$ 9,556,209	9.2%	\$ 10,164,529	10.3%
Intensive care	1,043,698	1.0	1,138,713	1.2
Nursery	1,062,567	1.0	961,499	1.0
Rehabilitation unit	1,341,878	1.3	969,428	1.0
Operating room	6,406,019	6.2	6,962,790	7.0
Labor and delivery	1,232,983	1.2	1,106,595	1.1
Medical and surgical supplies	220,261	0.2	237,041	0.2
Electrocardiology	99,779	0.1	94,055	0.1
Pharmacy	6,179,885	5.9	5,939,043	6.0
Emergency room	809,474	0.8	939,753	1.0
Laboratory	3,748,261	3.6	3,512,841	3.6
Blood bank	522,575	0.5	484,234	0.5
Radiology	691,743	0.7	825,856	0.8
Ultrasound	774,487	0.7	757,325	0.8
Anesthesiology	398,741	0.4	418,321	0.4
Cardiopulmonary	2,998,558	2.9	3,166,236	3.2
Physical, occupational and speech therapy	737,886	0.7	777,119	0.8
Electroencephalography	2,440		976	
CT scan	1,488,122	1.4	1,464,785	1.5
MRI	219,394	0.2	260,070	0.3
Same day surgery	2,415		4,830	
Wound care	1,733		5,308	
Pain management	16,764		33,683	
Other services	98			
Total inpatient service revenue	39,555,970	38.0	40,225,030	40.8

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
PATIENT SERVICE REVENUE - CONTINUED
Year ended December 31,

	2011		2010	
	Patient service revenue	Percent of total patient service revenue	Patient service revenue	Percent of total patient service revenue
Outpatient service				
Observation	\$ 1,917,918	1.8%	\$ 1,083,895	1.1%
Operating room	8,820,908	8.5	10,137,370	10.3
Labor and delivery room	89,694	0.1	115,026	0.1
Medical and surgical supplies	208,278	0.2	227,256	0.2
Electrocardiology	130,099	0.1	110,577	0.1
Pharmacy	4,191,557	4.0	3,641,804	3.7
Emergency room	9,597,971	9.2	9,278,515	9.4
Laboratory	6,508,507	6.2	5,753,690	5.8
Same day surgery	884,448	0.8	1,011,745	1.0
Blood bank	220,334	0.2	212,404	0.2
Radiology	3,142,102	3.0	2,880,686	2.9
Ultrasound	1,187,380	1.1	1,142,863	1.2
Anesthesiology	1,014,304	1.0	990,674	1.0
Cardiopulmonary	668,175	0.6	666,049	0.7
Physical, occupational and speech therapy	3,464,353	3.3	2,975,714	3.0
Hospice	2,869,643	2.8	589,011	0.6
CT scan	6,341,099	6.1	5,791,969	5.9
Electroencephalography	403,827	0.4	369,035	0.4
MRI	3,343,114	3.2	3,091,376	3.1
Other rehabilitation services	193,619	0.2	201,588	0.2
Wound care	444,844	0.4	283,135	0.3
Durable medical equipment	923,763	0.9	965,958	1.0
Pain management	482,875	0.5	481,013	0.5
NMP clinics	7,240,450	6.9	6,336,464	6.4
Express care clinic	312,696	0.3		
Other services	48,582		42,425	
Total outpatient service revenue	64,650,540	62.0	58,380,242	59.2
Total patient service revenue	104,206,510	100.0%	98,605,272	100.0%
Adjustments to patient service revenue				
Contractual adjustments	(51,746,077)		(47,314,054)	
Medicaid DSH and access payments	2,200,504		1,404,957	
Provision for bad debts	(2,870,774)		(3,059,080)	
Charity care	(2,256,232)		(2,971,570)	
Uninsured discounts	(1,422,831)		(1,500,335)	
Other discounts and allowances	(138,624)		(87,328)	
Net patient service revenue	\$ 47,972,476		\$ 45,077,862	

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended December 31,

	2011			2010		
	<u>Salaries and wages</u>	<u>Other expense</u>	<u>Total</u>	<u>Salaries and wages</u>	<u>Other expense</u>	<u>Total</u>
Routine services						
Nursing administration	\$ 652,387	\$ 15,301	\$ 667,688	\$ 692,248	\$ 65,115	\$ 757,363
Acute care	3,617,633	488,924	4,106,557	3,157,469	334,026	3,491,495
Rehab unit	534,500	235,221	769,721	377,453	211,538	588,991
Intensive care	512,631	33,738	546,369	502,675	36,319	538,994
Nursery	282,208	28,785	310,993	308,983	31,188	340,171
Labor and delivery	431,223	69,367	500,590	518,921	55,502	574,423
	<u>6,030,582</u>	<u>871,336</u>	<u>6,901,918</u>	<u>5,557,749</u>	<u>733,688</u>	<u>6,291,437</u>
Ancillary services						
Operating room	852,164	2,111,303	2,963,467	922,764	2,406,018	3,328,782
Same day surgery	478,229	56,491	534,720	532,112	60,371	592,483
Medical and surgical supplies	242,380	245,877	488,257	243,695	275,903	519,598
Electrocardiology		2,963	2,963		3,080	3,080
Laboratory	836,770	594,257	1,431,027	845,853	585,766	1,431,619
Anesthesiology		227,515	227,515		237,687	237,687
Blood bank		226,581	226,581		231,530	231,530
Radiology	591,881	513,475	1,105,356	624,299	433,930	1,058,229
Ultrasound	208,526	48,743	257,269	207,517	48,831	256,348
Pharmacy and IV therapy	691,326	1,467,019	2,158,345	651,124	1,441,936	2,093,060
Physical, occupational and speech therapy	349,804	1,129,915	1,479,719	226,486	1,128,782	1,355,268
Cardiopulmonary	471,976	74,536	546,512	492,712	75,380	568,092
Electroencephalography	41,863	10,857	52,720	42,172	5,525	47,697
CT scan	70,764	222,832	293,596	58,685	244,414	303,099
MRI	81,395	128,102	209,497	79,442	127,361	206,803
Women's imaging	2,826	4,696	7,522			
Other rehabilitation services	149,268	9,669	158,937	147,217	10,842	158,059
Wound care	187,864	43,391	231,255	74,760	22,158	96,918
Emergency room	1,725,792	978,264	2,704,056	2,004,282	705,706	2,709,988
Durable medical equipment	164,651	333,379	498,030	151,645	312,880	464,525
Hospice	504,173	506,834	1,011,007	616,535	202,738	819,273
Pain management	33,985	19,086	53,071	42,285	32,652	74,937
NMP clinics	2,622,609	1,141,945	3,764,554	2,493,726	727,500	3,221,226
Express care clinic	170,099	154,368	324,467			
Other services	49,319	736	50,055	39,326	2,727	42,053
	<u>10,527,664</u>	<u>10,252,834</u>	<u>20,780,498</u>	<u>10,496,637</u>	<u>9,323,717</u>	<u>19,820,354</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
OPERATING EXPENSES BY FUNCTIONAL DIVISION - CONTINUED
Year ended December 31,

	2011			2010		
	<u>Salaries and wages</u>	<u>Other expense</u>	<u>Total</u>	<u>Salaries and wages</u>	<u>Other expense</u>	<u>Total</u>
General services						
Administrative and general						
Administration	\$ 584,610	\$ 821,504	\$ 1,406,114	\$ 656,278	\$ 777,897	\$ 1,434,175
Medicaid tax		339,258	339,258		339,258	339,258
Patient accounting	313,527	486,534	800,061	282,970	456,997	739,967
Medical staff development	58,915	180,927	239,842	60,012	199,543	259,555
Marketing and education	43,669	61,469	105,138	41,395	71,033	112,428
Information systems	462,593	837,600	1,300,193	498,644	740,215	1,238,859
Accounting	206,919	33,100	240,019	178,373	34,572	212,945
Q/RM/CQI/Transportation	284,094	115,206	399,300	269,962	94,057	364,019
Human resources	173,570	135,114	308,684	176,326	132,302	308,628
Insurance		317,951	317,951		339,452	339,452
Patient registration/ communications	364,872	100,187	465,059	380,119	126,558	506,677
Centralized scheduling	76,902	2,196	79,098	92,494	4,241	96,735
Continuing education	151,342	34,781	186,123	115,552	30,917	146,469
Employee health and welfare	97,748	6,517,612	6,615,360	49,801	6,139,636	6,189,437
Dietary	498,182	345,076	843,258	533,702	339,208	872,910
Plant operation and maintenance	624,784	1,464,509	2,089,293	584,135	1,453,694	2,037,829
Housekeeping	567,645	127,285	694,930	577,030	82,286	659,316
Laundry and linen	25,517	50,064	75,581	28,029	52,138	80,167
Medical records	610,245	185,864	796,109	574,776	179,187	753,963
Social service	338,003	14,278	352,281	405,736	11,642	417,378
School of nursing	145,119	637,071	782,190	147,564	630,157	777,721
Medical office building	78,225	186,767	264,992	76,076	168,483	244,559
Foundation	66,061	9,659	75,720	59,494	4,096	63,590
	<u>5,772,542</u>	<u>13,004,012</u>	<u>18,776,554</u>	<u>5,788,468</u>	<u>12,407,569</u>	<u>18,196,037</u>
Depreciation and amortization	<u>-</u>	<u>3,164,448</u>	<u>3,164,448</u>	<u>-</u>	<u>3,753,732</u>	<u>3,753,732</u>
Total expenses	<u>\$ 22,330,788</u>	<u>\$ 27,292,630</u>	<u>\$ 49,623,418</u>	<u>\$ 21,842,854</u>	<u>\$ 26,218,706</u>	<u>\$ 48,061,560</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
OTHER OPERATING REVENUE
Year ended December 31,

	<u>2011</u>	<u>2010</u>
MOB environmental services	\$ 94,308	\$ 88,692
MOB rental income	531,446	565,511
Other rental income	55,810	64,987
Cafeteria income	193,864	191,086
Homecare and Hospice reimbursement		752,680
Sale of drugs to nonpatients	515	91,504
School of nursing tuition	354,237	316,342
Other	<u>267,933</u>	<u>239,773</u>
	<u>\$ 1,498,113</u>	<u>\$ 2,310,575</u>